ANNUAL REPORT 1999

Credit Union Deposit Guarantee Corporation

CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Alberta credit union deposits are fully guaranteed

25 YEARS OF DEPOSIT PROTECTION

Deposit Guarantee Statement

25 YEARS OF DEPOSIT PROTECTION

The Credit Union Deposit Guarantee Corporation guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. Additionally, the *Credit Union Act* provides that the Government of Alberta will ensure that this obligation is carried out.

Vision

Financially strong and stable Alberta credit unions with cost effective protection for depositors.

Mission

To regulate business practices in Alberta credit unions and guarantee deposits according to legislation.

Primary Roles

- Provide a 100% guarantee of deposits held with Alberta credit unions.
- Review, advise on and where necessary, direct on sound business practices for credit unions.
- Monitor credit union financial performance and act quickly, when necessary, to improve credit union results and to minimize risks.
- Establish individual credit union loan approval limits and provide an approval function for loans exceeding these limits.

Corporate Philosophy

HOW WE CONDUCT OUR BUSINESS

We strive to maintain the Deposit Guarantee Fund at a level that will enable us to independently provide the 100% deposit guarantee. We operate efficiently and effectively in achieving our goals.

We recognize each credit union is an autonomous unit and unique in its operations. We regulate business practices in Alberta credit unions. We review and where appropriate, approve loan applications submitted to us by credit unions, adhering to sound credit underwriting and proper securitization. We provide coaching to Alberta credit unions' boards and management to help improve their skills. Where unsound business practices or major issues are identified, we work with the credit unions to help them correct or address these matters. In extraordinary circumstances, we impose legislated sanctions resulting in a loss of credit union autonomy. When sanctions are imposed, we work diligently with the credit union to correct deficiencies promptly and to return autonomy as soon as possible.

We maintain open communication with Alberta Treasury, Credit Union Central of Alberta and the Credit Union System to ensure a common understanding of each other's role.

HOW WE TREAT OUR EMPLOYEES

- We treat our employees with respect.
- We compensate our employees fairly, consistent with guidelines provided by the Government of Alberta. We provide our employees with competitive benefits.
- We believe ongoing training/education of our employees is an investment in the Corporation and their future.

Chair's Message

25th Anniversary

As we celebrate our 25th anniversary, we look back at a quarter century of accomplishments and take great pride in the achievements of the Corporation and the credit union system. Our Deposit Guarantee Fund has grown significantly, from $3 million in 1974 to $64 million at the end of 1999, net of the financial assistance paid out over those years. Most of Alberta's credit unions met or exceeded their minimum capital adequacy levels by October 31, 1999, a requirement that was established only ten years ago. We continue to work closely with the credit unions that did not achieve their capital adequacy levels, with the goal of achieving capital adequacy as soon as possible.

Year 2000

We are pleased to report that January 1, 2000 ("Y2K") is now behind us and there were no reported problems experienced in the Corporation, Credit Union Central of Alberta or Alberta credit unions as a result of the computer changeover to year 2000. We would like to extend congratulations and thanks to all of the individuals who worked so hard and effectively to ensure success in dealing with this potential problem.

1999 Results

During 1999, our focus was on individual credit union capital adequacy levels, communication plans and the Year 2000 issue. We achieved significant progress in all these areas. Please refer to the charts included in this report for more details on our specific 1999 goals, achievements and results.

Credit Union Consultation Survey

During the year, we conducted our second credit union consultation survey. The results obtained through the survey were distributed to each credit union. We are pleased to report that the satisfaction levels were generally high and showed some improvement over the survey conducted in 1996. We will be introducing some specific action plans in 2000 to continue to improve our performance, particularly in our credit monitoring function. On behalf of the Board of Directors, I would like to thank those credit unions that participated by completing the survey for their valuable input through their constructive comments. We look forward to an increased participation rate in our next survey, which is planned for the spring of 2001.

Board Governance

Improved corporate board governance continued to be a regular Board agenda item in 1999. We reviewed the *Guidelines for Improved Corporate Governance in Canada* adopted by the Toronto Stock Exchange and the Governance recommendations from the *Annual Report of the Auditor General of Alberta 1998-99*. The Board has established the Corporation's Guidelines for Board Governance, Board Member Orientation and a policy on Corporate Governance Practices. The Board adopted a Board Effectiveness Questionnaire, which was completed by each board member, covering its 1999 performance. This performance questionnaire will be completed by Board members annually. The Board approved a new Board Governance Handbook, which will serve as a ready reference for Board members and will assist new Board members in their orientation process. As part of its governance review, the Board established the Human Resources Committee. This committee will evaluate the performance of the CEO, and review succession planning, personnel policies and overall employee compensation.

I wish to express appreciation, on behalf of the Corporation, to all of the members of the Board for their commitment and dedication to the business of directing the Corporation over the past year.

2000 Goals

Year 2000 Goals and Strategies

A major focus for the upcoming year will be updating and improving the Sound Business Practices Handbook and conducting sessions to advise credit union directors and management about sound business practices and our expectations. Further work will also be done on Board Governance when the results of the first Board Effectiveness Survey are reviewed at the Board Planning Session in May 2000. We will continue to monitor credit union capital and profitability levels.

It has been an honour and a challenge to serve the Corporation and its Board of Directors during the past year. We look forward to providing leadership in the areas of Sound Business Practices and Governance as we prepare for the many new challenges and changes facing financial institutions in this new millennium.

Bob Splane
Chair, Board of Directors

Goal #1 – Capital Adequacy

To regulate credit union compliance with the minimum capital adequacy levels (Goal: 100%).

Strategies

- Monitor credit union compliance with maintaining the minimum capital adequacy levels.
- Monitor specific credit union progress on approved action plans to reach the minimum capital requirements within five years.

Goal #2 – Soundness

To help strengthen Alberta credit unions.

Strategies

- Adopt a leadership role with respect to sound business practices.
- Identify risks affecting the financial strength of Alberta credit unions and implement necessary actions.

Goal #3 – Communication

To maintain effective communications and relationships with stakeholders.

Strategies

- Establish a formal communications strategy for 2000.
- Maintain open and timely communications with key stakeholders.

Goal #4 – Cost Effective Protection

To provide a cost effective approach to regulating Alberta credit unions.

Strategies

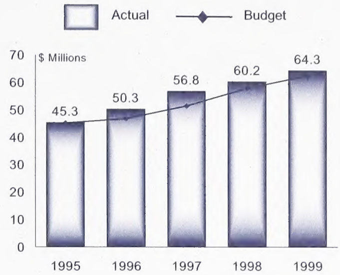
- Maintain the equity in the Deposit Guarantee Fund.
- Evaluate new methods to streamline regulatory processes.
- Focus on Board, strategic and organizational effectiveness.

Financial Summary - Deposit Guarantee Fund

Equity

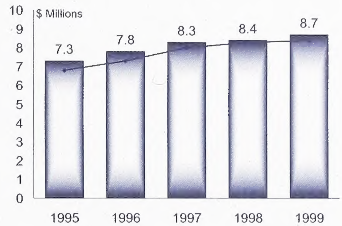
The equity in the Deposit Guarantee Fund is available to meet obligations to Alberta credit union depositors. Standards set out by the Credit Union Stabilization Funds of Canada suggest a minimum equity amount of at least 1.0% of total credit union assets. The equity reached $64 million at December 31, 1999, which represents 1.12% of total credit union assets.

The Deposit Guarantee Fund equity level exceeded budget because of lower than expected financial assistance and administration expenses.



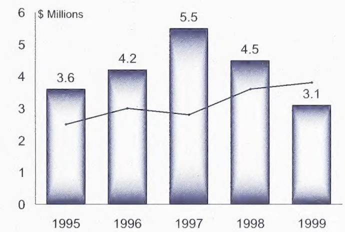
Assessment Revenue

Assessment revenue for 1999 increased marginally from the 1998 amount and exceeded the budgeted amount because of greater than expected growth in the total assessment base (deposits and borrowings) for all credit unions. The assessment rate charged to credit unions was maintained at 17 basis points of deposits and borrowings.



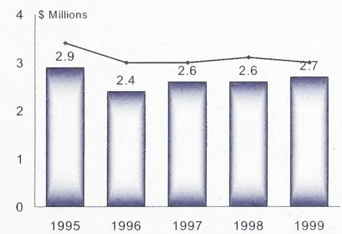
Investment Revenue

Investment revenue for 1999 was lower than the budgeted amount as a result of net capital losses realized by investment trading. The investment portfolio is managed with the objective of meeting the total return of the applicable Scotia Capital Markets All-Government indices, over a four year period, while maintaining high quality instruments in the portfolio. During the year, the investment portfolio slightly under performed the benchmark. Investment revenue was lower than in 1998 because of reduced capital gains and lower interest rates.



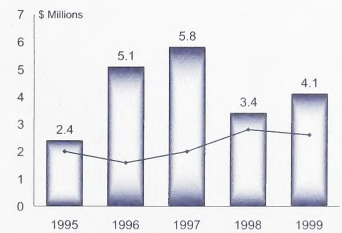
Administration Expense

Administration expenses for 1999 increased slightly from the 1998 amount because of minor cost increases in several expense categories. However, 1999 administrative expenses were lower than the budgeted amount mainly because of vacancies in staff positions during the year.



Net Income

Net income for 1999 exceeded budget and the prior years actual amount mainly because financial assistance and administration expenses were lower than expected.



1999 Goals, Strategies and Measures

Goal **CAPITAL ADEQUACY:**
To regulate credit union compliance with the minimum capital adequacy levels (Goal: 100%).

STRATEGY:
- Monitor progress on specific action plans of those credit unions not meeting the minimum capital adequacy levels.

MEASURE:
- Percentage of credit unions meeting the minimum capital adequacy levels (Target: 95%).

Goal **SOUNDNESS:**
To help strengthen Alberta credit unions.

STRATEGIES:
- Monitor and assess the progress of credit unions in implementing their Year 2000 plan and developing contingency plans.
- Identify and address risks affecting the financial strength of Alberta credit unions.

MEASURES:
- Number of credit unions that are profitable (Target: 100%)
- Number of major issues identified in credit union examinations (Target: Lower number than identified in prior year).
- Number of credit unions addressing year 2000 issue (Target: 100%).

Goal **COMMUNICATION:**
To achieve an improved understanding by credit union directors and management of the Corporation's role.

STRATEGIES:
- Establish a formal communications strategy for 1999.
- Increase the effectiveness of communications by exploring new techniques and technologies.

MEASURES:
- Feedback from participants of Credit Union Director Achievement Module on the Corporation's Role (Target: 80% with better understanding after attending module).
- Communication activities completed as planned (Target: 100%).

Goal **COST EFFECTIVE PROTECTION:**
To adopt a flexible and cost effective approach to regulating Alberta credit unions.

STRATEGIES:
- Maintain the equity in the Deposit Guarantee Fund.
- Evaluate new methods to simplify and add value to regulatory processes.

MEASURES:
- Deposit Guarantee Fund equity as a percentage of total credit union assets (Target: 1.10%).
- Rate of return on investment portfolio (Target: at least equal to the return on Benchmark portfolio).
- Assessment rate charged to credit unions (Target: 17 basis points or lower).
- Regular survey of credit unions on satisfaction with the regulatory compliance processes (Target: 75% satisfaction or better).

Achievements and Results

- Percentage of credit unions meeting the minimum capital adequacy levels was slightly below the target of 95% .
- Total credit union capital as a % of total adjusted assets (minimum: 4%) and as a % of total risk weighted assets (minimum: 8%).

1997	1998	1999
81%	83%	94%
5.8%	6.4%	7.1%
10.6%	11.9%	13.3%

- 94% of credit unions were profitable in 1999, and the losses reported by 6% of credit unions totalled less than $65,000.
- Issued eight Lending Bulletins to credit unions on relevant credit issues and reviewed credit union lending limits twice during the year.
- Conducted two portfolio reviews and twenty-nine examinations of credit unions, with a lower number of major issues identified than in the prior year.
- Participated on the credit union system Year 2000 Task Force and monitored progress of credit unions in implementing their plans. All credit unions successfully addressed the year 2000 issue.

- Implemented items in the communications plan including: a new telephone system, a Corporation website, email addresses for employees and the introduction of Sound Business Practices memos.
- Conducted sessions for credit unions on the Corporation's Role with positive feedback from credit unions who attended the sessions.

- Deposit Guarantee Fund equity as a % of total credit union assets exceeded target rate of 1.10%.
- Slightly under performed the benchmark rate of return objective on the investment portfolio for the year.
- Maintained the assessment rate at 17 basis points of credit union deposits and borrowings. The rate is reviewed annually.
- Completed a consultation survey with credit union satisfaction levels reported at higher levels in all areas as compared to the previous year.

1997	1998	1999
1.18%	1.15%	1.12%

Management's Responsibility for Reporting

The financial statements of Credit Union Deposit Guarantee Corporation, and all other information contained in the annual report, are prepared and presented by management, which is responsible for their accuracy, objectivity and completeness. This responsibility includes presenting the statements in accordance with generally accepted accounting principles. Preparation of the statements necessarily involves the use of estimates which are made using careful judgement.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors has the ultimate responsibility for these financial statements. The Board oversees management's responsibilities for financial reporting through an Audit Committee, composed entirely of directors who are not officers or employees of the Corporation. The Committee reviews the financial statements and recommends them to the Board for approval.

To carry out its duties, the Audit Committee reviews the annual financial statements, as well as issues related to them. The Audit Committee also assesses the effectiveness of internal controls over the accounting and financial reporting systems. The Audit Committee's review of financial reports includes an assessment of key management estimates and judgements material to the financial results.

The external auditor conducted an audit of these financial statements in accordance with generally accepted auditing standards. The external auditor has full and unrestricted access to the Audit Committee to discuss his audit findings as to the integrity of the Credit Union Deposit Guarantee Corporation's financial reporting and adequacy of internal controls.

The Auditor General has examined these financial statements and his report follows.

J. Laitner
Chief Executive Officer

E. Friedrich, CA
Chief Financial Officer

Auditor's Report

AUDITOR GENERAL *Alberta*

To the Directors of the Credit Union Deposit Guarantee Corporation

I have audited the balance sheet of the Credit Union Deposit Guarantee Corporation as at December 31, 1999 and the statements of income and equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine FCA
Auditor General

Edmonton, Alberta
February 24, 2000

Balance Sheet

December 31, 1999
(thousands of dollars)

	1999	1998
ASSETS		
Cash	$ 1,219	$ 1,001
Investments (Note 3)	73,967	70,150
Accrued interest receivable	598	573
Due from credit unions	1,613	1,466
Loans receivable	225	278
Other assets (Note 4)	1,033	1,072
Capital assets (Note 5)	141	110
	$ 78,796	**$ 74,650**
LIABILITIES		
Accounts payable and accrued liabilities	$ 258	$ 314
Accrual for financial assistance (Note 6)	4,900	5,515
Deferred revenue	770	895
Amounts due to and investment in S C Financial Ltd. (Note 7)	5,809	5,406
Long-term unclaimed credit union balances payable	385	49
	12,122	12,179
Commitments and contingencies (Note 9)		
EQUITY		
Deposit Guarantee Fund	64,292	60,167
Master Bond Fund	2,382	2,304
	66,674	62,471
	$ 78,796	**$ 74,650**

The accompanying notes and schedule are part of these financial statements.

Statements of Income and Equity

For The Year Ended December 31, 1999
(thousands of dollars)

	1999 Budget	1999 Actual	1998 Actual
DEPOSIT GUARANTEE FUND			
Revenues:			
Interest	$ 3,771	$ 3,128	$ 4,532
Deposit guarantee assessments	8,390	8,681	8,412
Recovery of special assistance (Note 8)	131	140	151
	12,292	**11,949**	**13,095**
Expenses:			
Interest and bank charges	23	33	23
Provision for (recovery of) financial assistance (Note 6)	764	(810)	1,149
Special contribution (Note 7)	5,586	5,810	5,409
Administration (Schedule 1)	3,052	2,692	2,596
	9,425	**7,725**	**9,177**
Income before income taxes	2,867	4,224	3,918
Income taxes (Note 10)	317	99	533
Net income for the year	2,550	4,125	3,385
Equity at beginning of year	59,928	60,167	56,782
Equity at end of year	**$ 62,478**	**$ 64,292**	**$ 60,167**
MASTER BOND FUND			
Revenues:			
Insurance assessments	$ 867	$ 500	$ 582
Interest	114	132	132
	981	**632**	**714**
Expenses:			
Insurance premiums	586	416	522
Administration	150	145	150
Insurance claims paid (recovered)	216	(7)	40
	952	**554**	**712**
Net income for the year	29	78	2
Equity at beginning of year	2,280	2,304	2,302
Equity at end of year	**$ 2,309**	**$ 2,382**	**$ 2,304**

Statement of Cash Flows

For the Year Ended December 31, 1999
(thousands of dollars)

	1999 Budget	1999 Actual	1998 Actual
Operating activities			
Assessments received	$ 9,153	$ 8,910	$ 8,946
Interest received	3,846	3,138	4,513
Financial assistance recovered (paid)	(499)	195	(1,499)
Loan principal and interest recovered	24	150	242
Special assistance received	131	140	151
Insurance claims recovered (paid)	(216)	7	(40)
Interest and bank charges paid	(24)	(33)	(23)
Income taxes paid	(286)	(74)	(1,252)
Paid to suppliers and employees	(2,942)	(2,909)	(3,246)
Special contribution paid	(5,243)	(5,407)	(4,895)
Cash flows from operating activities	**3,944**	**4,117**	**2,897**
Investing activities			
Purchase of investments, net	(3,832)	(3,818)	(2,802)
Purchase of capital assets	(112)	(81)	(38)
Cash flows from investing activities	**(3,944)**	**(3,899)**	**(2,840)**
Net increase in cash	-	218	57
Cash at beginning of year	1,501	1,001	944
Cash at end of year	**$ 1,501**	**$ 1,219**	**$ 1,001**

Notes to the Financial Statements

December 31, 1999

Note 1 Authority and purpose

The Credit Union Deposit Guarantee Corporation (the "Corporation"), operates under the authority of the Credit Union Act, Chapter C-31.1, Statutes of Alberta, 1989, as amended. The Corporation guarantees the repayment of all deposits with Alberta credit unions including accrued interest. The Credit Union Act provides that the Province of Alberta (Province) will ensure that this obligation of the Corporation is carried out. As at December 31, 1999 credit unions in Alberta held deposits totalling $5,118,771,000. Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

In 1986, S C Financial Ltd. was incorporated under the Alberta Business Corporations Act for the purpose of providing $335,000,000 of deficit financing assistance to credit unions under supervision. All of the outstanding shares of S C Financial Ltd. are held by the Corporation (Notes 2(c) and 7).

The Corporation guarantees the interest on the S C Financial Ltd. Debentures issued in exchange for Stabilization Preferred Shares of the credit unions and the interest is funded by the Province pursuant to its indemnification. Accordingly, the obligation of the Corporation pursuant to its guarantee is not reported in these financial statements.

Note 2 Significant accounting policies and reporting practices

(a) Basis of presentation

These financial statements have been prepared in accordance with generally accepted accounting principles.

These financial statements reflect separate funds: a Deposit Guarantee Fund and a Master Bond Fund.

The Deposit Guarantee Fund enables the Corporation to guarantee the repayment of all deposits with credit unions, its primary objective. The Deposit Guarantee Fund's statement of income includes assessments received from credit unions, assistance payments recorded on behalf of credit unions, as well as all other revenues and expenses related to the primary objective.

The Master Bond Fund provides insurance coverage to credit unions under a policy administered by the Corporation. A credit union may claim a maximum of $100,000 for directors liability claims and $85,000 for other claims, less its deductible, which is payable out of the Master Bond Fund; a reinsurance policy insures the amount of the claim that exceeds $100,000 or $85,000 respectively. The Master Bond Fund's statement of income includes insurance assessments received from credit unions, interest income, premiums paid for the reinsurance policy, administration fee, and insurance claims paid (recovered).

The Corporation may use all of its assets to support its primary objectives.

(b) Use of estimates

The Corporation's financial statements are prepared in accordance with generally accepted accounting principles and necessarily include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the accrual for financial assistance, provision for (recovery of) financial assistance, allowance for loan impairment and Master Bond Fund insurance claims (expected and unreported). The Corporation reviews these estimates annually. Actual amounts may differ significantly from those estimates depending upon certain future events and uncertainties.

(c) Non-consolidation of S C Financial Ltd.

S C Financial Ltd. has not been consolidated in these financial statements since increases or decreases in the equity of S C Financial Ltd. do not accrue to the benefit of the Corporation.

(d) Cash

Daily cash balances are maintained in the Consolidated Cash Investment Trust Fund. The Consolidated Cash Investment Trust Fund is administered by the Provincial Treasurer with the objective of providing competitive interest income to account holders while maintaining maximum security and liquidity of account holders' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. Interest is earned on the daily cash balance at the average rate of earnings in the portfolio.

Notes to the Financial Statements

December 31, 1999

Note 2 Significant accounting policies and reporting practices (continued)

(e) Investments

Investments are carried at cost or amortized cost, with any discount or premium amortized on a straight-line basis over the life of the investments. Investments are written down when there is a decline in value that is other than temporary. Gains and losses on disposal of investments are included in interest revenues in the year of disposal. Substantially all securities held are purchased with the intention to hold them to maturity.

(f) Loans receivable

Impaired loans acquired as a result of credit union merger or dissolution proceedings are recorded at estimated net realizable value. As future cash flows cannot be determined with reasonable reliability, estimated net realizable values are based on the fair value of security underlying the loans, net of expected costs of realization and disposal. Annually, management reviews the adequacy of the allowance for loan impairment on a loan-by-loan basis and adjusts the allowance to an amount considered adequate to provide for expected loan losses. No portion of cash received on an impaired loan is recorded as interest income until such time as any allowances have been reversed and the principal has been fully recovered.

Foreclosed assets held for sale are valued at the lower of the principal portion of the loan and market value adjusted for any revenues received and expenses incurred subsequent to foreclosure less estimated costs of disposition.

(g) Capital assets

The following rates are designed to amortize the cost of capital assets over their estimated useful lives:

Furniture and equipment	five year straight-line
Computer equipment	30 per cent declining-balance
Computer software	one year straight-line
Leasehold improvements	straight-line over lease term

(h) Income taxes

The Corporation records income taxes based on the tax liability method. Therefore, future income taxes are recognized based on the tax effects that will arise if an asset is realized or a liability is settled for its carrying amount.

(i) Insurance claims

The Corporation estimates and accrues the Master Bond Fund's share of losses from any reported claims. It makes an additional accrual of the estimated losses from unreported claims based on the last three years' average actual loss experience.

(j) Accrual for financial assistance

The Corporation recognizes financial assistance to specific credit unions as an expense when the need for assistance becomes likely and it can reasonably estimate the amount.

Additionally, an accrual for financial assistance is established by assessing the aggregate risk in the credit union system based on existing capital available in individual credit unions, current and anticipated market and economic conditions, the likelihood of losses, and the application of historic loss experience. It reflects management's best estimate of the losses arising from the inherent risk in the credit union system. Future economic conditions are not predictable with certainty and actual losses may vary significantly from management's estimate.

(k) Fair value of financial instruments

Most financial instruments are valued at their carrying amounts included on the balance sheet, which are reasonable estimates of fair value. This approach applies to cash, accrued interest receivable, due from credit unions, loans receivable, accounts payable and accrued liabilities, accrual for financial assistance, amounts due to and investment in S C Financial Ltd. and long-term unclaimed credit union balances payable. The fair values of investments are disclosed in Note 3.

Note 3 Investments

	1999		1998	
	Cost	Market Value [2]	Cost	Market Value [2]
	(thousands of dollars)		*(thousands of dollars)*	
Securities issued or guaranteed by:				
Canada	$ 35,198	$ 34,596	$ 40,399	$ 41,287
Provinces	17,679	17,187	21,673	21,888
Other	21,090 [1]	20,543	8,078 [1]	8,075
Total	$ 73,967	$ 72,326	$ 70,150	$ 71,250

[1] These securities include shares of Credit Union Central of Alberta Ltd. ($100,000) and Co-operative Trust Company of Canada ($15,000), which approximate market value and have no specific term to maturity.

[2] Market value is calculated using independent pricing sources and Canadian investment dealers.

The investment portfolio is managed by external managers with the objective of providing investment returns higher than the total return of the applicable Scotia Capital Markets All-Government indices over a four year period. The portfolio is comprised of high quality Canadian fixed income and debt related instruments. Competitive investment returns are achieved through management of the portfolio duration and holdings.

As at December 31, 1999, securities held have an average effective yield of 6.22% per annum based on market (1998 – 4.94%); 5.69% per annum based on book (1998 – 5.28%). These securities have the following term structure based on par: under one year - 7% (1998 – 11%); over one year and under five years - 62% (1998 – 45%); over five years and under ten years - 31% (1998 – 44%).

The market value of the investments is subject to fluctuation as a result of normal market risk. The principle factor influencing the market value is the prevailing rate of interest. An increase of 1 per cent in interest rates will result in a decrease of approximately $716,000 (1998 – $692,000) in the market value of the total investments; and conversely, a decrease of 1 percent in interest rates will result in an increase in the market value of the same amount.

Note 4 Other assets

	1999	1998
	(thousands of dollars)	
Prepaid expenses	$ 617	$ 567
Income taxes recoverable	324	388
Future income taxes recoverable (Note 10)	92	117
Total	$ 1,033	$ 1,072

Note 5 Capital assets

	1999	1998
	(thousands of dollars)	
Furniture and equipment	$ 410	$ 382
Computer equipment	292	262
Computer software	42	36
Leasehold improvements	63	63
	807	743
Less accumulated amortization	(666)	(633)
Net book value	$ 141	$ 110

Note 6 Accrual for financial assistance

To fulfill the mandate described in Note 1, the Corporation assists credit unions experiencing financial difficulties when and as required. The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide further financial assistance the amount of which, if any, is undeterminable at this time.

The book value of the accrual for financial assistance approximates its fair value as it represents the Corporation's best estimate of the future amounts to be paid.

Note 6 Accrual for financial assistance (continued)

	1999	1998
	(thousands of dollars)	
Accrual for financial assistance:		
Balance at beginning of year	$ 5,515	$ 5,865
Provision for (recovery of) financial assistance	(605)	1,075
(Paid) during year	(10)	(1,425)
Balance at end of year	**$ 4,900**	**$ 5,515**
Provision for (recovery of) financial assistance:		
Financial assistance (recovery of), net of loan losses (recovery of)	$ (605)	$ 74
Provision for (recovery of) financial assistance	(205)	1,075
Provision for (recovery of) financial assistance	**$ (810)**	**$ 1,149**

Note 7 Amounts due to and investment in S C Financial Ltd.

	1999	1998
	(thousands of dollars)	
Balance at beginning of year	$ 5,406	$ 4,892
Payment of previous year's special contribution	(5,406)	(4,892)
Special contribution current year	5,810	5,409
Special assistance due	-	(2)
	5,810	5,407
Shares	(1)	(1)
Balance at end of year	**$ 5,809**	**$ 5,406**

A special contribution is an annual amount payable by the Corporation under the Credit Union Restructuring Agreement. It is equal to 0.11 per cent of credit union deposits and borrowings and is payable to S C Financial Ltd., as directed by the Province, until the year 2010.

Note 8 Recovery of special assistance

In 1989, the Corporation provided deficit assistance to supervised credit unions totalling $12,524,000. It may recover portions of this assistance based on a percentage of the credit unions' annual net income plus patronage allocations less investment share dividends, both net of tax. The credit unions repaid $140,000 during the year (1998 - $151,000) and $2,716,000 to date.

Note 9 Commitments and contingencies

(a) Lease commitments

The Corporation is committed to a non-cancellable operating lease for business premises totalling $187,000.

The following amounts represent minimum payments over the next two years:

2000	$ 160,000
2001	27,000

(b) Litigation

There are legal proceedings pending against the Corporation which arise from normal business activities. Management of the Corporation believes that the financial cost of resolution of these proceedings will not be material to the financial position of the Corporation.

Note 10 Income Taxes

The Corporation is a deposit insurance corporation for income tax purposes. Its taxable income excludes assessments and financial assistance recoveries and no deduction may be made for financial assistance, insurance premiums, claims, or special contributions paid on behalf of member credit unions.

The Corporation's statutory income tax rate is 28%. Income taxes differ from the expected result that would have been obtained by the combined federal and provincial tax rate to income before income taxes, for the following reasons:

	1999	1998
	(thousands of dollars)	
Expected income taxes at the statutory rate	$ 1,205	$ 1,098
Non-taxable assessments received	(2,571)	(2,518)
Non-deductible assistance paid	-	322
Non-deductible special contribution paid	1,627	1,515
Non-deductible insurance premiums paid	115	160
Non-taxable assistance recoveries	(266)	(42)
Other	(11)	(2)
Income taxes	$ 99	$ 533

At December 31, 1999 the Corporation had tax values of capital assets in excess of related book values of approximately $329,000 (1998 - $418,000), which are reflected in these financial statements as future income taxes recoverable.

	1999	1998
	(thousands of dollars)	
Current income taxes	$ 74	$ 495
Future income taxes	25	38
Income taxes	$ 99	$ 533

Note 11 Directors' and management remuneration

			1999	1998
	Director Fees or Salary [1]	Benefits [2] and Allowances	Total	Total
		(thousands of dollars)		
Chair [4]	$ 29	$ -	$ 29	$ 33
Board Members [4]	$ 48	$ -	$ 48	$ 48
Current senior management:				
Chief Executive Officer	$ 142	$ 24	$ 166	$ 156
Chief Financial Officer	93	16	109	105
Senior Manager, Operations [5]	79	9	88	84
Senior Manager, Credit [3]	78	8	86	25
Manager, Examinations	68	8	76	73
Former senior management:				
Senior Manager, Credit [3]	$ -	$ -	$ -	$ 58

1 Salary includes regular base pay, bonuses and vacation payouts.

2 Employer's share of all employee benefits and contributions made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, health care, dental coverage, vision coverage, medical benefits including out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short term disability, professional and club memberships, staff fund and automobile allowances.

3 The 1998 amount represents the period September 1 to December 31 for the current incumbent and the period January 1 to August 31 for the former incumbent.

4 The Chair and Board Members are paid on a per diem basis for preparation and meeting time. The Deputy Provincial Treasurer is a Board Member but receives no remuneration from the Corporation.

5 Salary for 1999 includes vacation payout of approximately $3,000.

Note 12 1999 Budget

The 1999 budget was approved by the Board of Directors on September 29, 1998.

Note 13 Comparative Figures

The 1998 figures have been restated where necessary to conform to 1999 presentation.

Note 14 Uncertainty due to year 2000 issue

The year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using the year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than the date. Although the change in date has occurred, it is not possible to conclude that all aspects of the year 2000 issue that may affect the Corporation, including those related to customers, suppliers, or other third parties, have been fully resolved.

Note 15 Approval of financial statements

The Board of Directors has approved these financial statements.

Schedule 1

Schedule of Administration Expenses

For the Year Ended December 31, 1999
(thousands of dollars)

	1999 Budget	1999 Actual	1998 Actual
Deposit Guarantee Fund			
Salaries and benefits	$ 2,250	$ 2,118	$ 2,102
Staff travel	206	158	164
Rental charges	159	158	128
Office	135	98	97
Professional fees	102	84	70
Board and committee fees	118	77	81
Other	127	77	50
Amortization	70	51	38
Board and committee expenses	35	16	16
	3,202	2,837	2,746
Allocation to Master Bond Fund	(150)	(145)	(150)
	$ 3,052	$ 2,692	$ 2,596

Corporate Governance Practices

The Board of Directors and management have established corporate governance practices that are based on the Guidelines for Improved Corporate Governance in Canada adopted by the Toronto Stock Exchange. The Board of Directors oversees the business and affairs of the Corporation. The Board makes all major policy decisions for the Corporation. Many Board functions are carried out by the three committees of the Board. The Board has adopted a code of conduct and ethics policy for its members that is annually acknowledged by each director. The effectiveness of the Board and the Committees is assessed annually by each Director with the objective of continually improving corporate governance practices.

Committees

Audit (Committee of the Board)

This committee acts as a bridge between the Board of Directors and the auditors in overseeing the financial reporting content and process, appropriate systems of internal control, and independent audit processes (subject to the *Auditor General Act*). The functions of this committee are set out in section 86 of the *Credit Union Act* and its Terms of Reference. The committee also reviews the systems of internal control to ensure compliance with legal, ethical and regulatory requirements and that the systems are operating effectively.

Finance (Committee of the Board)

This committee monitors the financial performance of the Corporation and reports to the Board of Directors. The functions of this committee are set out in Section 80 of *the Credit Union Act* and its Terms of Reference. The committee also approves certain expenditures as assigned by the Board and recommends financial policies of the Corporation.

Human Resources (Committee of the Board)

This committee reviews corporate human resource matters and reports to the Board of Directors. The functions of this committee are set out in its Terms of Reference. The committee evaluates the performance of the CEO and reviews succession planning for senior management, personnel policies and overall employee compensation arrangements.

Credit

The main functions of this committee are to establish loan approval limits for each credit union, and approve loans that exceed these limits, and the authority levels delegated to officers of the Corporation. The functions of this committee are set out in its Terms of Reference. The committee also monitors the Corporation's Credit Department lending approval processes and the administration of loans acquired from credit unions to ensure sound lending principles are maintained.

Board of Directors

The Corporation is administered by a Board of Directors appointed by the Lieutenant Governor in Council of Alberta.

Bob Splane, Chair [1,2,3,8]
A corporate director
Boyle, Alberta

Rick Bell [3]
The nominated representative from the credit union system
Barrhead, Alberta

John Henry [7]
A retired bank executive
Calgary, Alberta

Rod McDermand [1,2]
A corporate director
Alix, Alberta

Mary Arnold, FCA, Vice Chair [3,4,5,6]
Arnold Consulting Group Ltd.
Edmonton, Alberta

Ron Gilmore, CMC [1,2,4]
Management Consultant,
Gilmore Systems Ltd.
Calgary, Alberta

Peter Kruselnicki [1,2]
Deputy Provincial Treasurer of the Province of Alberta
Edmonton, Alberta

1 Audit Committee Member
2 Finance Committee Member
3 Credit Committee Member
4 Human Resources Committee Member
5 Chair, Audit Committee
6 Chair, Finance Committee
7 Chair, Credit Committee
8 Chair, Human Resources Committee

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25 YEARS OF DEPOSIT PROTECTION